CHARTERED ACCOUNTANTS

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Rye & District Community Financial Services Limited

Financial Statements

as at

30 June 2012

Rye & District Community Financial Services Limited
ABN 67 095 766 895
Directors' Report

Your directors submit the financial statements of the company for the financial year ended 30 June 2012.

Directors

The names and details of the company's directors who held office during or since the end of the financial year:

Shane Christopher McCarthy Llb GAICD
Chairman & Director
Age: 60
Occupation: Solicitor & Notary Public
Qualifications, experience and expertise: Chair, Sponsorship & Marketing Committee, 36 years experience as Legal Practitioner.

Special responsibilities: Chair of Sponsorship & Marketing
Interest in shares: 7,404

Patricia Tonks
Treasurer
Age: 70
Occupation: Retiree
Qualifications, experience and expertise: Former Councillor Flinders Shire, 36 years experience Business Administration and President Rye Community Centre.

Special responsibilities: Finance Committee
Interest in shares: 42,236

Eileen Naylor
Secretary
Age: 64
Occupation: Retiree
Qualifications, experience and expertise: B.A (Hons), 15 years experience Human Resource Management

Special responsibilities: Sponsorship & Marketing Committee
Interest in shares: 24,000

Barry Leonard Irving
Director
Age: 69
Occupation: Retiree
Qualifications, experience and expertise: Photography, 3 Terms as President Rye Rotary Club, Former Secretary Southern Peninsula Rescue Squad and 17 years experience Senior Laboratory Craftsman with C.S.I.R.O.

Special responsibilities: Marketing, Promotion & Advertising
Interest in shares: 4,100

Andrew Ross Emerson
Director
Age: 65
Occupation: Home Furnishing Industry
Qualifications, experience and expertise: 40 years experience Furnishing Industry and Member Lions Club .

Special responsibilities: Property Maintenance
Interest in shares: 4,000

Gary Michael Cain
Director
Age: 61
Occupation: Accountant, CPA
Qualifications, experience and expertise: CPA Qualified and Former President Rosebud Football Club Inc.

Special responsibilities: Finance Committee
Interest in shares: 5,000

Stephen Bernard Edmund
Director, Deputy Chairman & Marketing Committee
Age: 61
Occupation: Real Estate Agent
Qualifications, experience and expertise: 22 years experience Retail Hardware, previously served on National Marketing Committee of Home Hardware, Paul Harris Fellowship of Rotary Club Dromana and Chairman Dromana Chamber of Commerce.

Special responsibilities: Deputy Chairman & Marketing Committee

Interest in shares: 7,200

Dorothy Mortlock
Director
Age: 67
Occupation: Retiree
Qualifications, experience and expertise: Former President Rosebud Country Club, Secretary Peninsula Community Fund Inc and Volunteer Peninsula Health.

Special responsibilities: Governance Committee

Interest in shares: Nil

Directors *(continued)*

Janet Iris Hall
Director
Age: 65
Occupation: Interior Decorator
Qualifications, experience and expertise: 30 years experience and Sole Operator of Interior Decorating and Chairperson Southern Mornington Peninsula Uniting Church.

Special responsibilities: Governance Committee
Interest in shares: 4,800

Vincent de Paul Cheers
Director *(appointed 24th July 2012)*
Age: 53
Occupation: Managing Director
Qualifications, experience & expertise: Has successfully run small businesses for the past thirty years. Currently runs a successful waste and recycling business on the Mornington Peninsula, employing over 30 staff. President of St Francois Foundation, a voluntary not-for-profit NGO serving medical and educational needs in Papua New Guinea.
Special responsibilities: N/A
Interest in shares: Nil

Directors were in office for this entire year unless otherwise stated.

No directors have material interests in contracts or proposed contracts with the company.

Company Secretary

The company secretary is Eileen Naylor. Eileen was appointed to the position of secretary on 24th November 2004. Eileen completed a Bachelor of Arts with Honours in 1969 and has 15 years experience in Human Resources Management.

Principal Activities

The principal activities of the company during the course of the financial year were in facilitating **Community Bank®** services under management rights to operate franchised branches of Bendigo and Adelaide Bank Limited.

There has been no significant changes in the nature of these activities during the year.

Operating Results

Operations have continued to perform in line with expectations. The profit of the company for the financial year after provision for income tax was:

Year ended 30 June 2012 $	Year ended 30 June 2011 $
592,419	543,969

Remuneration Report

Remuneration Policy

The remuneration policy of Rye & District Community Financial Services Limited has been designed to align to key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the company's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the company, as well as create goal congruence between directors, executives and shareholders.

Remuneration Report *(continued)*

Key Management Personnel Remuneration Policy

Key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the board's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholders wealth.

Key management personnel also receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

Employment agreements were entered into with key management personnel.

Remuneration Structure

All directors are independent non-executive Directors and are paid Directors' fees as disclosed below.

Non-executive director remuneration policy

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and regularly reviews the amount of fees paid, based on market practices, duties and accountability.

The maximum aggregate amount of fees that can be paid to non-executive Directors requires approval by shareholders as required by the Corporations Act 2001 and NSX listing rules.

Fees for non-executive Directors are not linked to the performance of the Company.

Performance based remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Company and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Company's goals and shareholder wealth, before the KPIs are set for the following year.

The Company does not pay performance based remuneration to any Director.

Relationship between Remuneration Policy and Company Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Performance-based bonus is based on the achievement of KPIs as disclosed above.

The Senior Manager is paid a base salary, which is between $125,000 and $135,000 plus the use of a company car. In addition the Senior Manager receives a bonus if the company exceeds the performance criteria established by the Board. The bonus is subject to the board's review of performance and will be in the range of $10,000 to $20,000.

Remuneration Report *(continued)*

Company performance, shareholder wealth and director's and executives' remuneration

The following table shows the gross revenue, profits and dividends for the last six years of the entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows excellent growth in revenue, increased payments to community groups and projects as well as consistent returns to shareholders. The company share price at the end of the 2011/2012 financial year is a reflection of the company performance and growth, as well as recognition of the strengthening of the Company's balance sheet. The board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall trend in shareholder wealth over the past five years.

	2012	2011	2010	2009	2008	2007*
Revenue	3,459,053	3,218,264	2,760,156	2,339,744	1,979,714	1,478,936
Net Profit/(Loss)	592,419	543,969	445,806	169,150	94,257	(13,427)
Share price at Year	1.10	0.80	1.20	0.95	1.00	1.90
Dividend paid per share	7.1c	6.7c	6.5c	4.5c	2.0c	3.0c
Gross dividend paid	208,144	196,418	190,554	131,922	58,632	87,948

* A 3:1 bonus share offer was made during 2006/2007

Directors' Remuneration

For the year ended 30 June 2012, the directors received total remuneration, as follows:

	$
Shane Christopher McCarthy	20,000
Patricia Tonks	15,000
Eileen Naylor	10,000
Barry Irving	7,500
Andrew Ross Emerson	7,500
Janet Iris Hall	7,500
Stephen Bernard Edmund	7,500
Gary Michael Cain	7,500
Dorothy Mortlock	7,500

Fees and payments to non executive directors reflect the demands which are made on and the responsibilities of the directors. Non executive directors' fees are reviewed annually by the Board. The Chairman's, Secretary's and Treasurer's fees are determined independently to the fees of non executive directors. All directors' remunerations are inclusive of committee fees.

Options issued as part of remuneration for the year ended 30 June 2012

No options have been issued as part of remuneration for the year ended 30 June 2012.

Employment Contracts for Directors

There are no employment contracts for Directors.

Dividends

	Year Ended 30 June 2012	
	Cents	$
Final dividends recommended:	7.1c	208,144
Dividends paid in the year:		
- As recommended in the prior year report	6.7c	196,418

Significant Changes in the State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements.

Matters Subsequent to the End of the Financial Year

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company, in future years.

Likely Developments

The company will continue its policy of facilitating banking services to the community.

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a director, a firm which a director is a member or an entity in which a director has a substantial financial interest except as disclosed in note 21 to the financial statements. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

Indemnification and Insurance of Directors and Officers

The company has indemnified all directors and the manager in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors or manager of the company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

Directors' Meetings

The number of directors' meetings attended by each of the directors of the company during the year were:

	Board Meetings Attended		Committee Meetings Attended					
			Sponsorship & Marketing		Governance		Finance	
	Eligible	*Attended*	*Eligible*	*Attended*	*Eligible*	*Attended*	*Eligible*	*Attended*
Shane Christopher McCarthy	14	10	11	9	-	-	-	-
Patricia Tonks	14	9	-	-	-	-	2	2
Eileen Naylor	14	8	11	9	-	-	-	-
Barry Leonard Irving	14	11	-	-	-	-	-	-
Andrew Ross Emerson	14	13	-	-	-	-	-	-
Gary Michael Cain	14	12	-	-	-	-	2	2
Stephen Bernard Edmund	14	13	-	-	-	-	-	-
Dorothy Mortlock	14	10	-	-	6	6	-	-
Janet Iris Hall	14	10	-	-	6	6	-	-

Non Audit Services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the auditor (Andrew Frewin & Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The board of directors has considered the position, in accordance with the advice received from the audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

Signed in accordance with a resolution of the board of directors at DROMANA,

Stephen Edmund, Deputy Chairman

Patricia Tonks, Director

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Rye & District Community Financial Services Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 10 September 2012

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Rye & District Community Financial Services Limited
ABN 67 095 766 895
Statement of Comprehensive Income
for the Year Ended 30 June 2012

	Notes	2012 $	2011 $
Revenues from ordinary activities	4	3,459,053	3,218,264
Employee benefits expense		(1,383,327)	(1,202,021)
Charitable donations, sponsorship, advertising and promotion		(506,682)	(530,908)
Occupancy and associated costs		(189,860)	(167,185)
Systems costs		(152,358)	(130,917)
Depreciation and amortisation expense	5	(92,870)	(77,839)
Finance costs	5	(101,369)	(72,540)
General administration expenses		(209,197)	(246,713)
Profit before income tax expense		**823,390**	**790,141**
Income tax expense	6	(230,971)	(246,172)
Profit after income tax expense		592,419	543,969
Total comprehensive income for the year		**592,419**	**543,969**
Earnings per share (cents per share)		c	c
- basic for profit for the year	23	20.21	18.56

The accompanying notes form part of these financial statements

Rye & District Community Financial Services Limited
ABN 67 095 766 895
Balance Sheet
as at 30 June 2012

	Notes	2012 $	2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	779,715	510,449
Trade and other receivables	8	297,265	283,254
Total Current Assets		**1,076,980**	**793,703**
Non-Current Assets			
Property, plant and equipment	9	2,998,683	3,038,122
Financial assets	10	10,000	-
Intangible assets	11	91,546	115,431
Deferred tax assets	12	43,178	32,295
Total Non-Current Assets		**3,143,407**	**3,185,848**
Total Assets		**4,220,387**	**3,979,551**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	92,064	333,064
Current tax liabilities	12	70,623	87,343
Borrowings	14	219,085	254,877
Provisions	15	116,143	90,712
Total Current Liabilities		**497,915**	**765,996**
Non-Current Liabilities			
Borrowings	14	1,105,920	1,005,964
Provisions	15	44,950	31,990
Total Non-Current Liabilities		**1,150,870**	**1,037,954**
Total Liabilities		**1,648,785**	**1,803,950**
Net Assets		**2,571,602**	**2,175,601**
Equity			
Issued capital	16	1,299,400	1,299,400
Retained earnings	17	1,272,202	876,201
Total Equity		**2,571,602**	**2,175,601**

The accompanying notes form part of these financial statements

Rye & District Community Financial Services Limited
ABN 67 095 766 895
Statement of Changes in Equity
for the Year Ended 30 June 2012

	Issued Capital $	Retained Earnings $	Total Equity $
Balance at 1 July 2010	1,299,400	522,786	1,822,186
Total comprehensive income for the year	-	543,969	543,969
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(190,554)	(190,554)
Balance at 30 June 2011	1,299,400	876,201	2,175,601
Balance at 1 July 2011	1,299,400	876,201	2,175,601
Total comprehensive income for the year	-	592,419	592,419
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends provided for or paid	-	(196,418)	(196,418)
Balance at 30 June 2012	1,299,400	1,272,202	2,571,602

Rye & District Community Financial Services Limited
ABN 67 095 766 895
Statement of Cashflows
for the Year Ended 30 June 2012

	Notes	2012 $	2011 $
Cash Flows From Operating Activities			
Receipts from customers		3,403,249	3,177,483
Payments to suppliers and employees		(2,360,753)	(2,303,929)
Interest received		28,434	18,991
Interest paid		(101,369)	(72,540)
Income taxes paid		(238,495)	(250,685)
Net cash provided by operating activities	18	731,066	569,320
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(327,338)	(1,429,559)
Payments for office furniture and equipment		(2,208)	(4,698)
Payments for intangible assets		-	(119,423)
Payments for leasehold improvements		-	(12,869)
Net cash used in investing activities		(329,546)	(1,566,549)
Cash Flows From Financing Activities			
Proceeds from borrowings		217,000	1,235,000
Repayment of borrowings		(152,836)	(364,204)
Dividends paid		(196,418)	(190,554)
Net cash provided by/(used in) financing activities		(132,254)	680,242
Net increase/(decrease) in cash held		269,266	(316,987)
Cash and cash equivalents at the beginning of the financial year		510,449	827,436
Cash and cash equivalents at the end of the financial year	7(a)	779,715	510,449

The accompanying notes form part of these financial statements

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Boards and the Corporations Act 2001. The company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

These financial statements and notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Historical cost convention

The financial statements have been prepared under the historical cost convention on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Comparative figures

Where required by Australian Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The adoption of the revised AASB 124 Related Party Disclosures has not resulted in the disclosure of any additional related party transactions in the current period or any prior period and is not likely to affect future periods. The adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project have not affected the disclosure of any items in the financial statements.

The company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2011.

Economic dependency - Bendigo and Adelaide Bank Limited

The company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branches at **Rye & Dromana**.

The branches operate as franchises of Bendigo and Adelaide Bank Limited, using the name "Bendigo Bank" and the logo and system of operations of Bendigo and Adelaide Bank Limited. The company manages the **Community Bank®** branches on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank®** branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

All deposits are made with Bendigo and Adelaide Bank Limited, and all personal and investment products are products of Bendigo and Adelaide Bank Limited, with the company facilitating the provision of those products. All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo and Adelaide Bank Limited, must be approved by Bendigo and Adelaide Bank Limited. All credit transactions are made with Bendigo and Adelaide Bank Limited, and all credit products are products of Bendigo and Adelaide Bank Limited.

Note 1. Summary of Significant Accounting Policies *(continued)*

a) Basis of Preparation *(continued)*

Economic dependency - Bendigo and Adelaide Bank Limited *(continued)*

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** branch franchise operations. It also continues to provide ongoing management and operational support, and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

- advice and assistance in relation to the design, layout and fit out of the **Community Bank®** branch;
- training for the branch manager and other employees in banking, management systems and interface protocol;
- methods and procedures for the sale of products and provision of services;
- security and cash logistic controls;
- calculation of company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs; and
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the company and any specific criteria have been met. Interest and fee revenue is recognised when earned. The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

The franchise agreement with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the company. First, the company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the company that are regarded as "day to day" banking business (i.e. 'margin business'). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the company effectively incurs, and must bear, 50% of that loss.

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the company (i.e. 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank®** partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank®** companies remain balanced.

The third source of revenue is a proportion of the fees and charges (ie, what are commonly referred to as 'bank fees and charges') charged to customers. This proportion, determined by Bendigo and Adelaide Bank Limited, may vary between products and services and may be amended by Bendigo and Adelaide Bank Limited from time to time.

Note 1. Summary of Significant Accounting Policies *(continued)*

c) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the company entity intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

d) Employee Entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The company contributes to a defined contribution plan. Contributions to employee superannuation funds are charged against income as incurred.

e) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

f) Trade Receivables and Payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

Note 1. Summary of Significant Accounting Policies *(continued)*

g) Property, Plant and Equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- leasehold improvements	40	years
- plant and equipment	2.5 - 40	years
- furniture and fittings	4 - 40	years

h) Intangibles

The franchise fee paid to Bendigo and Adelaide Bank Limited has been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

The **establishment/renewal processing** fee paid to Bendigo and Adelaide Bank Limited when renewing the franchise agreement has also been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

i) Payment Terms

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days.

j) Borrowings

All loans are initially measured at the principal amount. Interest is recognised as an expense as it accrues.

k) Financial Instruments

<u>Recognition and initial measurement</u>

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

<u>Derecognition</u>

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

k) Financial Instruments *(continued)*

Classification and subsequent measurement

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

l) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

m) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions of other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

n) Contributed Equity

Ordinary shares are recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

o) Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Note 1. Summary of Significant Accounting Policies *(continued)*

p) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Note 2. Financial Risk Management

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the board of directors.

(i) Market risk

The company has no exposure to any transactions denominated in a currency other than Australian dollars.

(ii) Price risk

The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

(iii) Credit risk

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo and Adelaide Bank Limited.

(iv) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo and Adelaide Bank Limited mitigates this risk significantly.

Note 2. Financial Risk Management *(continued)*

(vi) Capital management

The board's policy is to maintain a strong capital base so as to sustain future development of the company. The board of directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit.

(i) the distribution limit is the greater of:
  (a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and
  (b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and

(ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2012 can be seen in the statement of comprehensive income.

There were no changes in the company's approach to capital management during the year.

Note 3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the statement of comprehensive income.

Note 3. Critical Accounting Estimates and Judgements *(continued)*

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Note 4. Revenue from Ordinary Activities

	2012 $	2011 $
Operating activities:		
- services commissions	3,377,359	3,156,023
- other revenue	1,710	-
Total revenue from operating activities	3,379,069	3,156,023
Non-operating activities:		
- interest received	28,434	18,991
- rental revenue	51,550	43,250
Total revenue from non-operating activities	79,984	62,241
Total revenues from ordinary activities	3,459,053	3,218,264

Note 5. Expenses

	2012 $	2011 $
Depreciation of non-current assets:		
- motor vehicles	11,705	15,036
- office furniture and equipment	4,530	6,375
- leasehold improvements	52,750	42,436
Amortisation of non-current assets:		
- franchise agreement	4,314	10,721
- franchise renewal fee	19,571	3,271
	92,870	77,839
Finance costs:		
- interest paid	101,369	72,540
Bad debts	7,001	4,466
Loss on disposal of non current assets	-	18,594

Note 6. Income Tax Expense

	Note	2012 $	2011 $
The components of tax expense comprise:			
- Current tax		258,050	256,350
- Future income tax benefit attributed to losses		-	-
- Movement in deferred tax		(10,882)	(10,178)
- Recoup of prior year tax loss		-	-
- Amendments to tax from prior periods		(16,197)	-
		230,971	246,172
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Operating profit		823,390	790,141
Prima facie tax on profit from ordinary activities at 30%		247,017	237,043
Add tax effect of:			
- non-deductible expenses		1,569	5,348
- timing difference expenses		10,681	13,764
- other deductible expenses		(1,217)	195
		258,050	256,350
Movement in deferred tax	12	(10,882)	(10,178)
Amendments to tax from prior periods		(16,197)	-
		230,971	246,172

Note 7. Cash and Cash Equivalents

	2012 $	2011 $
Cash at bank and on hand	46,950	301,037
Term deposits	732,765	209,412
	779,715	510,449

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

Note 7.(a) Reconciliation of cash

	2012 $	2011 $
Cash at bank and on hand	46,950	301,037
Term deposits	732,765	209,412
	779,715	510,449

Note 8. Trade and Other Receivables

	2012 $	2011 $
Trade receivables	277,843	260,473
Prepayments	19,422	22,781
	297,265	283,254

Note 9. Property, Plant and Equipment

	2012 $	2011 $
Land & Buildings		
At cost	2,849,538	2,824,419
Less accumulated depreciation	(198,173)	(166,452)
	2,651,365	2,657,967
Motor Vehicles		
At cost	96,877	96,877
Less accumulated depreciation	(54,269)	(42,564)
	42,608	54,313
Office Furniture & Equipment		
At cost	67,929	63,502
Less accumulated depreciation	(33,702)	(29,172)
	34,227	34,330
Leashold Improvements		
At cost	302,018	302,018
Less accumulated depreciation	(31,535)	(10,506)
	270,483	291,512
Total written down amount	2,998,683	3,038,122

	2012	2011
Note 9. Property, Plant and Equipment *(continued)*	**$**	**$**
Movements in carrying amounts:		
Land & Buildings		
Carrying amount at beginning	2,657,967	1,264,746
Additions	25,119	1,427,759
Disposals	-	-
Less: depreciation expense	(31,721)	(34,538)
Carrying amount at end	2,651,365	2,657,967
Motor Vehicles		
Carrying amount at beginning	54,313	69,349
Additions	-	-
Disposals	-	-
Less: depreciation expense	(11,705)	(15,036)
Carrying amount at end	42,608	54,313
Office Furniture & Equipment		
Carrying amount at beginning	34,330	40,381
Additions	4,427	6,498
Disposals	-	(6,174)
Less: depreciation expense	(4,530)	(6,375)
Carrying amount at end	34,227	34,330
Leasehold Improvements		
Carrying amount at beginning	291,512	27,092
Additions	-	284,738
Disposals	-	(12,420)
Less: depreciation expense	(21,029)	(7,898)
Carrying amount at end	270,483	291,512
Total written down amount	2,998,683	3,038,122

Note 10. Financial Assets

Loan - Edenhope & District Financial Services Limited	10,000	-

The loan is an interest free loan with repayment of the principal due five year from the date of the loan agreement, being 27 March 2017.

Note 11. Intangible Assets

Franchise fee		
At cost	129,570	129,570
Less: accumulated amortisation	(113,035)	(108,721)
	16,535	20,849
Establishment/Renewal processing fee		
At cost	97,853	97,853
Less: accumulated amortisation	(22,842)	(3,271)
	75,011	94,582
Total written down amount	91,546	115,431

Note 12. Tax

		2012 $	2011 $
Current:			
Income tax payable		70,623	87,343
Non-Current:			
Deferred tax assets			
- accruals		-	-
- employee provisions		48,354	37,035
		48,354	37,035
Deferred tax liability			
- accruals		23	470
- deductible prepayments		5,153	4,270
		5,176	4,740
Net deferred tax asset		43,178	32,295
Movement in deferred tax charged to statement of comprehensive income		(10,883)	(10,178)

Note 13. Trade and Other Payables

		2012 $	2011 $
Trade creditors		1,700	747
Other creditors and accruals		90,364	332,317
		92,064	333,064

Note 14. Borrowings

		2012 $	2011 $
Current:			
Lease liability	19	-	27,157
Bank loans		219,085	227,720
		219,085	254,877
Non-Current:			
Bank loans		1,105,920	1,005,964

Bank loans are repayable monthly with the final instalment due on 22nd May 2016. Interest is recognised at an average rate of 7.56% (2011: 7.50%). The loans are secured by a fixed and floating charge over the company's assets.

Note 15. Provisions

		2012 $	2011 $
Current:			
Provision for dividend		(86)	(86)
Provision for annual leave		53,578	45,191
Provision for long service leave		62,651	45,607
		116,143	90,712
Non-Current:			
Provision for long service leave		44,950	31,990
Number of employees at year end		19	18

Note 16. Contributed Equity

	2012 $	2011 $
2,931,605 Ordinary shares fully paid (2011: 2,931,605)	1,340,732	1,340,732
Less: equity raising expenses	(41,332)	(41,332)
	1,299,400	1,299,400

Rights attached to shares

(a) *Voting rights*

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the **Community Bank®** branch have the same ability to influence the operation of the company.

(b) *Dividends*

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The franchise agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) *Transfer*

Generally, ordinary shares are freely transferable. However, the directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the company's constitution and the Corporations Act.

Note 16. Contributed Equity *(continued)*

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the company.

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the company (the "10% limit").
- In the opinion of the board they do not have a close connection to the community or communities in which the company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the company to that person the number of shareholders in the company is (or would be) lower than the base number (the "base number test"). The base number is 270. As at the date of this report, the company had 527 shareholders.

As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the company.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited shareholding interest, are suspended.

The board has the power to request information from a person who has (or is suspected by the board of having) a legal or beneficial interest in any shares in the company or any voting power in the company, for the purpose of determining whether a person has a prohibited shareholding interest. If the board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of shares the board considers necessary to remedy the breach. If a person fails to comply with such a notice within a specified period (that must be between three and six months), the board is authorised to sell the specified shares on behalf of that person. The holder will be entitled to the consideration from the sale of the shares, less any expenses incurred by the board in selling or otherwise dealing with those shares.

The National Stock Exchange (NSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not as a result the base number clause does not operate whilst the company remains listed on the NSX.

In the constitution, members acknowledge and recognise that the exercise of the powers given to the board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

Note 17. Retained Earnings

	2012 $	2011 $
Balance at the beginning of the financial year	876,201	522,786
Net profit from ordinary activities after income tax	592,419	543,969
Dividends paid or provided for	(196,418)	(190,554)
Balance at the end of the financial year	1,272,202	876,201

Note 18. Statement of Cashflows

	2012 $	2011 $
Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities		
Profit from ordinary activities after income tax	592,419	543,969
Non cash items:		
- depreciation	68,985	63,847
- amortisation	23,885	13,992
- loss on sale of assets	-	18,594
Changes in assets and liabilities:		
- (increase)/decrease in receivables	(27,370)	(21,790)
- (increase)/decrease in other assets	(7,524)	(4,513)
- increase/(decrease) in payables	59,000	(5,670)
-increase/(decrease) in provisions	38,391	30,286
-increase/(decrease) in current tax liabilities	(16,720)	(69,395)
Net cashflows provided by operating activities	731,066	569,320

Note 19. Leases

	2012 $	2011 $
Finance lease commitments		
Payable - minimum lease payments		
- not later than 12 months	-	28,304
- between 12 months and 5 years	-	-
- greater than 5 years	-	-
Minimum lease payments	-	28,304
Less future finance charges		(1,147)
Present value of minimum lease payments	-	27,157

The Ford Falcon chattel mortgage, which commenced in 2007, is a 4-year contract. Interest is recognised at an average rate of 8.65% (2011: 8.65%).

The Honda Civic chattel mortgage, which commenced in 2008, is a 4-year contract. Interest is recognised at an average rate of 8.95% (2011: 8.95%).

	2012 $	2011 $
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	84,000	84,000
- between 12 months and 5 years	217,000	301,000
- greater than 5 years	-	-
	301,000	385,000

The Rye Rental lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance.

Note 20. Auditors' Remuneration

	2012 $	2011 $
Amounts received or due and receivable by the auditor of the company for:		
- audit and review services	7,131	6,688
- non audit services	1,944	1,650
	9,075	8,338

Note 21. Director and Related Party Disclosures

The names of directors who have held office during the financial year are:

Shane Christopher McCarthy
Stephen Bernard Edmund
Gary Michael Cain
Patricia Tonks
Eileen Naylor
Barry Leonard Irving
Andrew Ross Emerson
Janet Iris Hall
Dorothy Mortlock

The Board has adopted a policy in respect to director fees with the following objectives:
- To attract and retain appropriately qualified and experienced directors; and
- To remunerate directors in regard to their responsibilities.

In accordance with Board policy, director remuneration comprises a base fee together with a 9% superannuation guarantee charge.

Directors fees are determined by the Board and are not to exceed $100,000 in aggregate, the allocation of which is determined at the discretion of the Board. This policy was approved by the shareholders at the 2007 Annual General Meeting held 31 October 2008.

During the normal course of business operations, Rye & District Community Financial Services Limited utilised services offered by local community business. Some of these transactions included businesses which some Directors have direct or indirect interest. These transactions are considered to be made at an arms length basis and are on normal commercial terms and are outlined below:

Shane McCarthy is a director of McCarthy Partners Solicitors which supplied the company with legal services during the financial year. During the financial year the total benefit received by McCarthy Partners Solicitors was $4,105 (2011 $2,849).

No director or related entity has entered into a material contract with the company.

Directors Shareholdings	2012	2011
Shane Christopher McCarthy	7,404	7,404
Patricia Tonks	42,236	42,236
Eileen Naylor	24,000	24,000
Barry Irving	4,100	4,100
Andrew Ross Emerson	4,000	4,000
Janet Iris Hall	4,800	4,800
Stephen Bernard Edmund	7,200	7,200
Gary Michael Cain	5,000	5,000
Dorothy Mortlock	-	-

There was no movement in directors shareholdings during the year.

Note 22. Dividends Paid or Provided	2012 $	2011 $
a. Dividends paid during the year		
Prior year proposed final 100% (2011: 100%) franked dividend - 6.7 cents (2011: 6.5 cents) per share	196,418	190,554
b. Dividends proposed and not recognised as a liability		
Current year final dividend 100% (2011: 100%) franked dividend - 7.1 cents (2011: 6.7 cents) per share	208,144	196,418

The tax rate at which dividends have been franked is 30% (2011: 30%).

Dividends proposed will be franked at a rate of 30% (2011: 30%).

c. Franking account balance	2012 $	2011 $
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	298,695	173,616
- franking credits that will arise from payment of income tax payable as at the end of the financial year	270,574	206,745
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	(84,179)	(81,666)
Franking credits available for future financial reporting periods:	485,090	298,695
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	(89,205)	(84,179)
Net franking credits available	395,885	214,516

Note 23. Earnings Per Share	2012 $	2011 $
(a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share	592,419	543,969
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,931,605	2,931,605

Note 24. Events Occurring After the Balance Sheet Date

There have been no events after the end of the financial year that would materially affect the financial statements.

Note 25. Contingent Liabilities

There were no contingent liabilities at the date of this report to affect the financial statements.

Note 26. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in **Rye District** pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 27. Registered Office/Principal Place of Business

The entity is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Registered Office	Principal Place of Business
Rye & District Community Financial Services Ltd 2271 Point Nepean Road Rye Vic 3941	Rye & District Community Financial Services Ltd 2271 Point Nepean Road Rye Vic 3941
	Rye & District Community Financial Services Ltd 239 Point Nepean Road Dromana Vic 3936

Note 28. Financial Instruments

Net Fair Values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the balance sheet. The company does not have any unrecognised financial instruments at the year end.

Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the balance sheet and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Interest Rate Risk

Financial instrument	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Over 5 years		Non interest bearing		Weighted average effective interest rate	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 %	2011 %
Financial Assets												
Cash and cash equivalents	171,639	300,560	668,828	20,412	-	-	-	-	475	475	3.38	3.72
Receivables	-	-	-	-	-	-	-	-	276,251	260,473	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	-	-	-	-	-	27,156	1,324,806	1,233,484	-	-	7.56	5.68
Payables	-	-	-	-	-	-	-	-	32,971	326,207	N/A	N/A

Rye District Community Financial Services Limited
ABN 67 095 766 895
Directors' Declaration

In accordance with a resolution of the directors of Rye & District Community Financial Services Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

(ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of the board of directors.

Stephen Edmund, Deputy Chairman

Patricia Tonks, Director

Signed on the 10 th of September 2012.

Partners in success

Chartered Accountants

Independent auditor's report to the members of Rye & District Community Financial Services Limited

Report on the financial report

We have audited the accompanying financial report of Rye & District Community Financial Services Limited, which comprises the balance sheet as at 30 June 2012, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These auditing standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's opinion on the financial report

In our opinion:

1) The financial report of Rye & District Community Financial Services Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2012 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.

2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Rye & District Community Financial Services Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 10 September 2012